

# **Sales Estimation of Tallink Silja's commercial traffic between Finland, Sweden and Estonia**

Jori-Joonas Hämäläinen

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<b>Author</b> Jori-Joonas Hämäläinen	<b>Group</b> GLOBBA
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<b>Supervisors</b> Jaana Melamies, Jutta Heikkilä	
<p>This Bachelor's thesis research was conducted for Tallink Silja Oy, a shipping company in the Baltic Sea region. Tallink Silja is one of the largest shipping companies in the region operating on six routes with 13 vessels. It has been a market leader, providing its customers quality cruises and transporting cargo between Finland, Sweden, Estonia and Latvia. The objectice of this research is to research passenger and cargo sales of Tallink Silja's operations between Finland, Sweden and Estonia.</p> <p>Maritime traffic has a long history in the Baltic Sea region between Finland, Sweden and Estonia. AS Tallink Grupp and Silja Line Ab used to be two saperate shipping companies before 2006, when AS Tallink Grupp acquired Silja Line. The corporation was then renamed Tallink Silja.</p> <p>This reseach project started on 4 August 2013 and ended on the 17 December 2013. The research material and figures were collected between August and September. Research methods included qualitative semi-formal interviews held with three Tallink Silja employees. These interviews took place between September and October. The data collected was analyzed in October and November.</p> <p>There are many factors that affect Tallink Silja's sales. It was found out that 59 % of Tallink Silja's revenue comes from on board sales, making it the most important source of income. It also became clear that the competition between shipping companies is challenging and prices are kept low to promote sales. It is difficult to maximize sales and cut costs, but these are areas the company needs to work on constantly.</p> <p>As a conclusion, Tallink Silja has been improving its sales in the past few years, but future threats can make a strong company vulnerable. That is why it is a constant battle to develop businesses and adapt to the ever changing world.</p>	
<b>Keywords</b> maritime traffic, revenue structure, sales volumes, sales estimatimation, Cost-Volume-Profit, sustainability	

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# 1 Introduction

This chapter will first in 1.1 introduce the background and the objective of this research, afterwards 1.2 will lighten up the research problem, 1.3 research question and investigative questions, 1.4 demarcation, 1.5 theoretical framework, 1.6 benefits to the stakeholders and 1.7 reason for doing this research and finally

## 1.1 Background and the Thesis Objective

This thesis concerns the *sales estimation of Tallink Silja's commercial traffic between Finland, Sweden and Estonia*. I will examine Tallink Silja's passenger and cargo traffic, and analyze the company's sales statistics. This thesis will also describe the history of Tallink Silja's commercial traffic and analyze what factors have affected sales since the 1990's. Tallink Silja was established in 2006 when AS Tallink Grupp acquired Silja Line Oy Ab and both companies were merged into one corporation. I will analyze each one of these companies separately before 2006 and conclude with an examination of Tallink Silja after the merger.

This research involves traffic between Finland – Sweden and Finland – Estonia. Tallink Silja currently operates between both countries, but also has other operations from Sweden to Estonia and Latvia. These routes will not be included in this thesis.

Ferry traffic involves transporting vehicles and passengers on a specific route with a regular timetable. In this thesis I will analyze all kinds of passenger traffic e.g. leisure passengers and one way travelers and roll on – roll off (roro) cargo traffic. Roro<sup>1</sup> cargo traffic includes semi, truck and trailer traffic. Most of roro cargo customers are logistics companies that regularly have cargo units traveling from one country to another. These companies have special contracts with Tallink Silja, and they might transport tens of units per day on board Tallink Silja's ships. This thesis will not include any kind of other cargo operations, such as sea rail, containers or tankers.

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<sup>1</sup> Roro means loading ships from the bow or stern ports of the ship, meaning that these units have to be driven or towed into the ship. (Dumell, 2008, 15)

The objective of this research is to help Tallink Silja to recognize its problems and possible threats in passenger and cargo traffic. After recognizing those problems I have brought up in this research the company may start actions to either increase sales or keep them in the same level as they are right now. The objective of this research is also to raise awareness in maritime traffic and help Tallink Silja to make its operations more efficient.

## **1.2 Research Problem**

The topic of this thesis was selected after discussing the possibility of conducting research for Tallink Silja Oy (Tallink Silja). This subject is of personal interest to me and because I thought it would also be useful, I decided to conduct it for Tallink Silja Oy, after they had given their approval. As an employee of the company, I found it easy to gather information and to set up interviews with employees inside the company.

Tallink Silja is a market leader in passenger and cargo traffic in the Northern part of the Baltic Sea. Its ferries connect Finland, Sweden, Estonia and Latvia. The problem is that in the past ten years the volume of passengers has dropped despite Tallink Silja's efforts to promote their cruises and to gain more customers. This is a challenge for many shipping companies because cheap airfare offered by airlines are taking customers away from cruises. For the price of a cruise from Finland to Sweden, one can fly across to the other side of Europe. Fuel surcharges are also expected to rise in the near future, making it an even bigger challenge to attract passengers in the future. There are also difficulties with transporting cargo. Cargo operations mark only 11 % of Tallink Silja's revenue, and in many cases most of the cargo is transported only on several specific days of the week. Tallink Silja and its competitors are trying to attract international logistics companies to become their clients, and to use their services as much as possible, but the competition is fierce. It is a challenge to produce a profit with cargo operations, while also dividing cargo transportation so that all departing ships would be fully loaded.

As a result of these challenges, Tallink Silja has been promoting its leisure cruises and targeting new groups of customers. The company is looking for new markets and new customers through advertising. For example, instead of marketing cruises in just Finnish, Swedish and Estonian markets, the company has seen tourists to these countries as a potential new customer base in the future. These include e.g. Russians, Asians, and people from other parts of Europe who travel to these Baltic countries. Lately the company has been arranging new theme cruises that would attract the interest of customers more than just “normal” cruises. Another challenge is to get cruise passengers to spend more money on board the ships. This marks up 59 % of Tallink Silja’s revenue. In order to attract passengers’ interest, the stores on board the ships must be able to offer cheaper retail prices, and also more unique products compared to shops on land.

To overcome the challenges posed by cargo operations, the company is trying to promote their concept of offering several routes and timetables, giving logistics companies more options and greater flexibility to transport their goods. Since Tallink Silja offers more routes and vessels, it has a decisive advantage over its competitors. There is a possibility that logistics companies in Southern Europe and Eastern Europe will start transporting goods through the Baltic States and Scandinavia. Therefore Tallink Silja’s cargo promoters are travelling around Europe looking for possible new clients. So far at least Ukraine and Croatia have expressed a lot of interest regarding Tallink Silja’s businesses.

### 1.3 Research Question and Investigative Questions

This subchapter explains the main research question which will be analyzed in this research and it will be followed by four investigative questions.

**RQ:** *How to estimate and improve sales in passenger and cargo traffic?*

This research questions will be answered in the latter part of this thesis

The research questions will be divided to the following investigative questions which will help to answer the research question itself.

**IQ1:** What are the advantages and disadvantages against competitors?

**IQ2:** Why all traffic is not profitable and why keep operating?

**IQ3:** What is the future situation of the traffic and how to overcome possible threats?

### 1.4 Demarcation

This research is demarcated geographically in order to focus on specific routes. These routes are selected, because they are economically important for the company and because of tough competition. This report will analyze past events that have had an effect on sales regarding routes between Finland, Sweden and Estonia, and also analyze the current situation of these routes. This includes the following routes: Helsinki – Tallinn, Helsinki – Stockholm, and Turku – Stockholm (figure 1). Other historical and current routes, except the Vaasa – Umeå route, will not be discussed in this research. Tallink Silja also has operations from Sweden to Estonia and Latvia. These routes will not be included in this thesis. Silja Line Oy Ab had other cruise and passenger traffic in different areas of the world and these will also not be included in this thesis. Neither will Tallink's discontinued traffic between Finland – Germany and Finland – Russia or hotel businesses be discussed.





Figure 1. Tallink Silja This is Where We Operate. (Tallink Silja. 2013d).

## 1.5 Theoretical Framework

The theoretical framework was formed gradually when it was decided that which methods are being used to conduct this research. When I implemented the project steps I decided to use a so called zipper model, applying the theory and the empirical research at the same time. As my theoretical framework I have used several accounting methods that companies use for their sales estimations. The methods used in this research were the analysis of competitors, sales mix, pricing and sustainability.

Managerial accounting (Braun & Tietz 2013) provides a core theoretical base for this thesis. Data provided by Tallink Silja such as cargo sales revenues and passenger volumes are used together with the theoretical framework to bring up key findings of this research. Also maritime traffic literature is used to understand reasons that are behind decisions shipping companies have made in the past.

## **1.6 Benefits for Stakeholders**

Tallink Silja will benefit from this thesis report, when planning their future plans in cargo and passenger traffic. It is important to understand the company's history when making decisions about the future, in order to avoid the same mistakes made in the past. Tallink Silja will be also able to use this report as a guideline for future decision-making and this may give them a new perspective on how to think about their future plans. I will benefit from this research by gaining more knowledge about maritime traffic, and by learning how to conduct and write a research.

## **1.7 Reason for Doing This Research**

The reason for writing this thesis about Tallink Silja's sales estimation is to investigate the factors that have affected sales and to determine possible threats to the future of commercial traffic. I find this subject very interesting, due to the fact that I have personal interest in maritime traffic. Also as an employee of Tallink Silja, I find this subject to be a helpful way of gaining more knowledge about the company, and I may use this research for future job tasks. This research analysis also fulfills the requirement of containing an international business aspect, since this research looks into operations between three different countries.

## 2 Introduction of Tallink Silja

Tallink Silja is the produce of a joint venture of two separate shipping companies that merged in 2006. On the 12 June, 2006 an Estonian-based shipping company, AS Tallink Grupp bought Silja Line Ab (Silja Line) and its six cruiseferries for EUR 470 million. The seller was Silja Line's previous owner a Bermuda based company, Sea Containers Ltd (Sea Container's). Sea Container's had acquired Silja Line from Oy EffJohn Ab in 1999 (Dumell 2008, 139).

Tallink Silja has operates from Finland under the Silja Line brand to Stockholm and under the Tallink brand to Tallinn. Tallink Silja operates ro-ro and ropax vessels between Finland-Sweden-Estonia and Latvia and calls 8 ports. In 2013 it had in total 18 vessels of which 13 currently sail under Tallink Silja's brand. Its headquarters are located in Helsinki, Finland and it currently employs approximately 6700 people of which 1500 are located in Finland (Tallink Silja Oy. 2012c).

Tallink Silja has operations in six countries: Finland, Estonia, Sweden, Latvia, Russia and Germany and its parent company AS Tallink Grupp is listed in the Tallinn stock exchange. In 2012 Tallink Silja transported 9.26 million people and its revenue was 56.3 million EUR (Tallink Silja 2013b).

### 2.1 Organization Structure

Presented in Table 1 is the company structure of Tallink Silja. The company structure has been divided so that under the parent company there are seven subsidiaries. All of them concentrate on specific routes. Under these subsidiaries are suppliers of goods, technical ship management, crewing, hotels, beauty services and harbor services. There are also 18 ship-owning companies and 13 other companies that are briefly mentioned. Those subsidiaries and companies that have a part in this research are marked in blue. Later in Figure 2 is a brief timeline which points out the key events in the history Tallink Silja.

<b>AS Tallink Grupp</b> Holding company, Estonia-Finland and Estonia-Sweden route operator, sales and marketing in Estonia, general administration		
<b>Tallink Silja Oy</b> Finland-Sweden routes operator Sales & Marketing in Finland	<b>AS Tallink Duty Free</b> Supply of goods for ships	<b>18 Ship-owning Companies</b>
<b>Tallink Silja AB</b> Sales & Marketing in Sweden	<b>OÜ Hansaliin</b> Onboard personnel crewing	<b>13 Other Companies</b>
<b>AS Tallink Latvija</b> Sales & Marketing in Latvia	<b>OÜ HT Laevateenindus</b> Technical ship management and crewing	
<b>OOO Tallink-Ru</b> Sales & Marketing in Russia	<b>AS HTG Invest</b> Stevedoring services	
<b>Silja Line GmbH</b> Sales Agent in Germany	<b>HTG Stevedoring OY</b> Stevedoring services	
<b>AS Tallink Baltic</b> Finland-Germany route operator	<b>OÜ TLG Hotell</b> Operator of hotels	
<b>AS Tallink</b> Riga-Stockholm route operator	<b>OÜ Hera Salongid</b> Beauty services	
	<b>OÜ HT Hulgi Tolliladu</b> Public customs warehouse	
	<b>OÜ HT Meelelahutus</b> Entertainment on ships	
	<b>OÜ Tallink Travel Club</b> Travel services	

Figure 2. Tallink Silja company structure (Adapted from Tallink Silja, 2013i).

## 2.2 History of Tallink

Tallink Grupp AS is an Estonian-based shipping company founded in 1989. It was formed as Laevandusühisettevõtte Tallink by Eesti Merelaevandus RAS (ESCO) (60 %) and Pankkiyhtymä Oy, Helsinki (40 %). The joint venture had acquired M/S Scandinavian Sky from DFDS Seaways and started operating it on the Helsinki-Tallinn route as M/S Tallink (Huopana 2013, 1).

In 1991, Estonia gained its independence from the Soviet Union and it soon became an intriguing tourist destination. The amount of Finnish passengers traveling to Estonia became 60 % of the total passenger amounts. Tallink also gained a second passenger vessel M/S Georg Ots. In 1993 ESCO bought all shares of Tallink from Pankkiyhtymä Oy and in 1994 it merged with Tallinn based company Inreko, which had operated on the Helsinki - Tallinn route with M/S Corbiere, and two hydrofoils. The name of the new corporation was changed to AS Hansatee Grupp (Tallink Silja, 2013c; Huopana 2013, 1).

In the mid 1990's Tallink sold its hydrofoils to the Estonian-based company Linda Line, but had acquired several other vessels to operate on the Helsinki-Tallinn route. The amount of Finnish passengers rose to 80 % in 1995. In 1997 Tallink started to also operate between Estonia and Sweden on the Paldiski - Kapellskär route, but also ran into financial difficulties. The company was nearly bankrupt and it was offered for sale to Silja Line and Viking Line. Both companies refused, and Tallink received more loans from banks to continue its operations. In 1999 AS Hansatee Grupp acquired all rights to use the "Tallink" brand name. In January 2001 AS Hansatee Grupp had chartered two vessels from Estline, which operated on the Tallinn - Stockholm route. The two vessels were taken over by Tallink brand, and now Tallink had expanded its operations to Tallinn – Stockholm route (Dumell 2008, 141; Huopana 2013, 1; Estline 2013).

In 2002 AS Hansatee Grupp changed its name to AS Tallink Grupp (Tallink), and its first newly built vessel, M/S Romantika started sailing on the Helsinki - Tallinn route. That same year Tallink's market share on that route rose to 32 %. In 2004 Romantika's

sister ship, the newly built M/S Victoria I started sailing between Tallinn and Stockholm, and Tallink opened a short-lived route between Helsinki and St. Petersburg (Huopana 2013, 1).

In March 2006 Tallink bought Superfast Ferries operations in the Baltic Sea region. This sale included three high-speed ropax vessels that operated between Finland and Germany. The usage of Superfast Ferries brand and the link to Germany were later discontinued. The same year Tallink also opened a new Stockholm-Riga route. Later in 2006 Tallink also bought Silja Line Ab from Sea Containers Ltd, and a new company Tallink Silja Oy was established in Finland (Huopana 2013, 1).

Between the years 2007-2009, Tallink Silja modernized its fleet by bringing four new vessels into traffic. These include the new brand of Tallink Shuttle, which includes two ships that operate between Helsinki and Tallinn, making it possible to travel between these two capital cities in just under two hours. Tallink Silja also replaced the M/S Galaxy of the Helsinki-Tallinn route with the newly built M/S Baltic Princess and brought another newly built vessel, the M/S Baltic Queen to the Tallinn - Stockholm route. Between the years 2010-2013, Tallink Silja has shifted its ships between different routes, making its operations more efficient, and in 2013 it bought a former Viking Line boat, the M/S Isabella (renamed M/S Isabelle) to the Stockholm – Riga route to better satisfy the route’s needs (Tallink Silja 2013j).

### **2.3 History of Silja Line**

In 1918 two companies Suomen Höyrylaiva Osakeyhtiö (SHO) and Stockholm’s Rederi AB Svea (Svea), signed a contract to start steam ship passenger traffic between Turku and Stockholm. Later in 1928 Höyrylaiva Oy Bore (Bore) joined the party. In 1950’s the companies ordered three new ships so called “Olympic ships” to operate between Finland and Sweden. To satisfy the growing demand the companies called SHO, Bore and Svea (Yhteisliikevarustamot) founded Oy Siljavarustamo-Ab (Silja Line) in 1957. The company acquired two vessels for their operations on the Turku - Stockholm route. By the end of 1950’s, they decided to order two brand new cruise ferries, which were delivered in 1961 and 1962 and assigned to the Turku- Åland-

Norrtälje route. Later in the 1960's Silja Line acquired several new cruise ferries, and in 1972 it started to operate the Helsinki - Stockholm route with two newly built vessels year-round. (Malmberg 2007, 6-7).

In 1974, the famous seal logo was first introduced and painted on the funnels of some of their ships. In 1980, Bore left the joint venture, and in 1981, Svea was purchased by a Swedish company, Johnsson Line. In the same year, Silja Line introduced two new luxury cruise ferries the M/S Silvia Regina and M/S Finlandia on the Helsinki- Stockholm route and in 1985-1986 two new ships, M/S Svea and M/S Wellamo on the Turku- Stockholm line. In 1987, Johnsson Line and SHO, which had become Effoa earlier, bought Rederi Ab Sally from their rival company, Viking Line. This trade also included Vaasanlaivat, a shipping company that had operations in the Bothnian Bay. Rederi Ab Sally had financial difficulties; due to unsuccessful operations in other parts of the world, and the debts became a burden for its new owner. In 1990 Johnsson Line and Effoa merged, and the new company was called EffJohn Holding Oy. In 1990-1991 M/S Silja Serenade and its sister ship, M/S Silja Symphony were built and set on the Helsinki – Stockholm route, but both ships ended up costing almost twice as much as expected. In 1995 the parent company changed its name to Silja Oy Ab, and in 1999 Sea Containers Ltd. bought 51 % of Silja Line's shares, making the company foreign-owned. Due to financial difficulties in 2006, Sea Containers Ltd. sold Silja Line to As Tallink Grupp in order to avoid bankruptcy. On the 1<sup>st</sup> of November 2006, the company was re-named Tallink Silja Oy (Malmberg 2007, 8-9; Tallink Silja 2013c; Dumell 2007. Video).

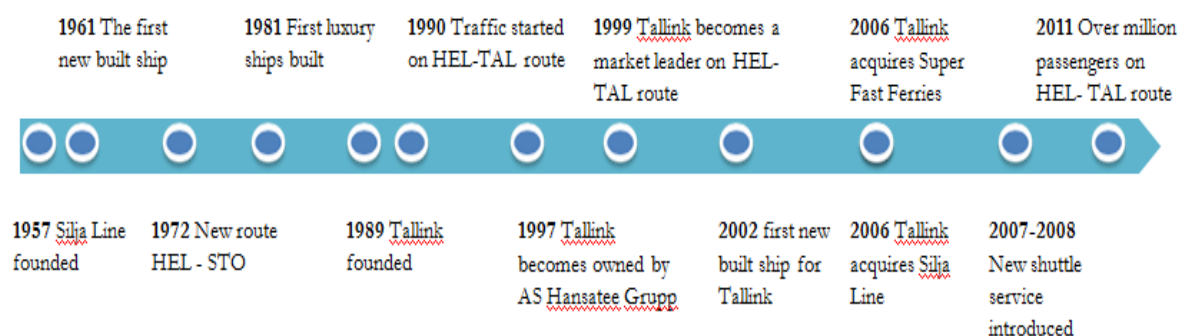


Figure 3. Timeline of Tallink Silja's history

## 2.4 Main Players

Between Finland, Sweden, and Estonia there are three shipping companies that are the main players in the market. They are Tallink Silja, Viking Line, and Eckerö Line. There are other shipping companies, but they are seen either as indirect or minor competitors for Tallink Silja. Table 2 below clarifies the operators' services between Finland, Sweden, and Estonia.

Table 2. Main Players

Operator	Finland - Estonia	Finland - Sweden
<b>Tallink Silja</b>	<b>Helsinki - Tallinn</b>	<b>Turku - Stockholm</b> <b>Helsinki - Stockholm</b>
<b>Viking Line</b>	<b>Helsinki - Tallinn</b>	<b>Turku - Stockholm</b> <b>Helsinki - Stockholm</b>
<b>Eckerö Line</b>	<b>Helsinki - Tallinn</b>	<b>Eckerö - Grisslehamn</b>

## 2.5 Maritime Traffic between Finland, Sweden and Estonia

It has been almost a century since the first scheduled traffic started between Finland and Sweden. It was in 1918 when SHO and Svea started traffic with two ships SS Oihonna and SS J L Runeberg. Both of these ships were built in the 19<sup>th</sup> century, they were old, expensive, and slow, and that is one reason why commercial traffic never really took off before the 1950's (Malmberg 2007, 20-21).



Before the 1960's, travelling abroad was expensive, and only few could afford it. It all changed dramatically after 1954, when the passport freedom agreement was created between Finland and Sweden. Yhteisliikennevarustamot started to think of a way to supply the growing demand. When Silja Line was established in 1957 the traffic expanded (Dumell 2008, 9,11).

In 1959 Viking Linjen (nowadays Viking Line) was established and started operating with one old English canal ferry from Finland to Sweden. After this it was mainly Silja Line and Viking Line competing against each other (Sjöström 2009, 14-15).

Through the 1960's and 1970's both Silja Line and Viking Line expanded their operations and ordered new ships every few years. They operated mainly from the ports of Turku or Naantali to Stockholm or Norrtälje, providing transportation for cargo and leisure cruises for passengers. Later the Helsinki – Stockholm route was also introduced. In the 1980's Viking Line was owned by Rederi AB Slite, Rederi AB Sally and Ålandsfärjan AB. AB Sally ran into financial difficulties in 1987 and was sold to Silja Line. At this time, Silja Line also gained access to the Nordic route from Vaasa to Umeå, which Viking Line never took part in. AB Slite went bankrupt in 1993 and Ålandsfärjan AB, which had changed its name to SF-Line AB, became the sole owner of Viking Line. It changed its name officially to Viking Line Abp in 1995, which remains its current name (Dumell 2008, 49,114-115; Dumell 2007. Video).

The financial crisis around the world in the early 1990's halted the exceptionally long growth period in maritime traffic, which had started in the 1960's. Shipyard Wärtsilä Meriteollisuus (eng. Wärtsilä Marine) went bankrupt, and the M/S Estonia disaster decreased the interest in leisure cruises, and new EU regulations also stopped tax-free sales on ships (Sjöström 2009, 197).

However a new growth opportunity between Finland and Estonia presented itself. In 1991 when Estonia gained its independence back, it opened up new opportunities to start operating cruises from Helsinki to Tallinn. This was not possible before because Estonia was part of the Soviet Union, and traveling to and from Estonia was practically

impossible. Estonian based company ESCO and several other investors that used the brand name of “Tallink” started operating between Helsinki and Tallinn in the early 1990’s. Several other shipping companies tried their luck on the same route including Viking Line and Silja Line, but Tallink had the biggest market share. In the 2000’s Tallink ordered altogether five new cruise ferries to operate on the Helsinki - Tallinn route, whereas its main rival Viking Line ordered only one new ship (Tallink Silja 2013c).

In 1993 Viking Line had ordered a new ship, M/S Europa, but due to the bankruptcy of AB Slite, it was not able to cash the ship from the shipyard. Silja Line saw an opportunity and purchased it renaming it the M/S Silja Europa. Earlier in 1990 and 1991, Silja Line launched two new ships on the Helsinki - Stockholm route, and was now the market leader between Finland and Sweden (Malmberg 2007, 164).

In 1997 Viking Line managed to buy M/S Silja Scandinavia from Silja Line renaming it M/S Gabriella, and gained a steady share of the commercial traffic again. The traffic since then between Finland and Sweden has remained steady, but in 2008 and 2013 Tallink Silja modernized its fleet on the Turku Stockholm route. Viking Line also replaced one of its older cruise ferries with a newly-built cruise ferry, M/S Viking Grace in 2013 (Sjöström, 2009, 187-188; Fakta om Fartyg 2013b; Fakta om Fartyg 2013c).

The Vaasa - Umeå route that Silja Line had gained in the late 1980’s was ceased in 2000, due in part to the fact that the EU had banned tax-free sales a year earlier. According to Lars Wendelin, former CEO of Silja Line, the end of tax-free sales destroyed the whole foundation of the commercial traffic (Dumell 2008, 131).

### **3 Research Methodology**

Research methods are divided into the following chapters. 3.1 Research Methods and Data Analysis and 3.2 Interviews. The research problem itself has been discussed already in chapter 1.4 and the Research question and investigative questions have been discussed in chapter 1.5

#### **3.1 Research Design and Data Analysis**

This thesis is a qualitative research report. When deciding whether to conduct a qualitative or a quantitative research report I decided that in order to address the most important factors, I decided to directly interview employees working for Tallink Silja. I conducted semi-formal interviews with prepared questions and interviewed three employees of Tallink Silja. After the interviews, I also attended a seminar held by the Sales Manager of Tallink Silja. In this seminar he explained the development of sales from the past up to the present. The sales manager also provided some future forecasts in order to support my research. In addition of completing the qualitative interviews I also used quantitative methods for gathering data, such as passenger and cargo volumes and sales revenues. I have also gathered reports about Tallink Silja's current and past financial situation and read literature about the history, and how maritime traffic has developed. To compare the results I have also researched similar information about Tallink Silja's competitors.

The information received from the interviews was written on a document and key findings were taken as part of this thesis. Data collected from Tallink Silja's reports was processed and most important information was taken to be part of this research. Information regarding passenger volumes and cargo units amounts were taken from a Shippax Market database which is a neutral source that gathers passenger amounts and cargo units transported in the whole Europe. This data was conducted in the past couple of years and comparing the amounts to Tallink Silja's competitors could be properly conducted.

## 3.2 Interviews

For this thesis I held three interviews with Tallink Silja employees. The interviews consisted of interviewing two captains of different vessels, and an interview with a cargo sales manager. I chose these people for my research because I found it important to understand how employees both on-shore and on-board understand Tallink Silja's sales, and how they view their development (Table 3). In these interviews we discussed about Tallink Silja's current market situation, how to improve sales and make operations more efficient, customer supply and demand, and future challenges. After these interviews I took part in a seminar, where I gained more information about sales and discussed about these matters with Tallink Silja's Director of Cargo Mr. Håkan Fagerström.

Table 3. Interviewees

Interviewee	Job Title	Interview date
Vahur Söstra	Captain	26 September 2013
Tarvi-Carlos Tuulik	Captain	30 September 2013
Marina Hasselblatt	Cargo Sales Manager	17 October 2013

My first interview took place on boards the M/S Star on 26 September 2013, where I interviewed the ships master Mr. Vahur Söstra. This interview gave me a well-rounded perspective of the differences between working on-board a ship compared to work on-shore. My second interview took part on 30 September 2013, on-board the M/S Superstar where I interviewed its master, Mr. Tarvi-Carlos Tuulik. This interview also provided me with more information about how employees on-board the ship view the company's operations, and how the commercial traffic is handled. My last interview took place in Helsinki's West Harbor on 17 October 2013. There I met with the Cargo Sales Manager, Marina Hasselblatt. She gave me valuable information about the current situation of Tallink Silja's sales, and how they have changed recently. She also provided me with useful data and material to be used in my thesis. The seminar I attended was held on 29 October on-board the M/S Silja Europa.

## 4 Traffic Revenues

The following chapter determines how the passenger and cargo sales of Tallink Silja are constituted. Chapter 4.1 explains the Analysis of Competitors, 4.2 Sales Mix and 4.3 Pricing.

### 4.1 Analysis of Competitors

Tallink Silja's main competitors are the Åland-based companies Viking Line and Eckerö Line. On the Helsinki – Tallinn route there is a small Estonian-based company Linda Line, which operates two catamarans, carrying only passengers. Its market share in the traffic is marginal, and its vessels are different than Tallink Silja's, therefore it is only a minor competitor for Tallink Silja. Finnlines transports cargo and passengers mainly to the other European countries such as Poland and Germany, but also operates some vessels between Finland and Sweden.

Finnlines transports only cargo between Finland and Sweden, competing with Tallink Silja in cargo operations. Finnlines operates several ships to other countries in Europe, but not on the same routes as Tallink Silja. Therefore it is seen as an indirect competitor (Finnlines 2013).

Viking Line operates seven ferries in the Baltic Sea area. Of its seven vessels only two, M/S Mariella and M/S Gabriella operate on the Helsinki – Stockholm route competing directly with Tallink Silja's ships, M/S Silja Symphony and M/S Silja Serenade. Two ships M/S Viking Grace and M/S Amorella operate on the Turku – Stockholm route competing with Tallink Silja's vessels, M/S Baltic Princess and M/S Galaxy. On the Helsinki – Tallinn route it operates one fast cruise ferry, M/S Viking XPRS (Viking Line 2013a).

Eckerö Line is competing against Tallink Silja on the Helsinki – Tallinn route with one vessel, M/S Finlandia. The company has also has two other vessels sailing between Åland and Sweden, but it has only a marginal effect on Tallink Silja's operation between Finland and Sweden. These ships sail under the Eckerö Linjen and Birka Line

brand. Below are shown the market share of Tallink and its competitors in passenger traffic (figure 4) and the market share on Finland – Sweden route (figure 5) (Eckerö Line 2013a).

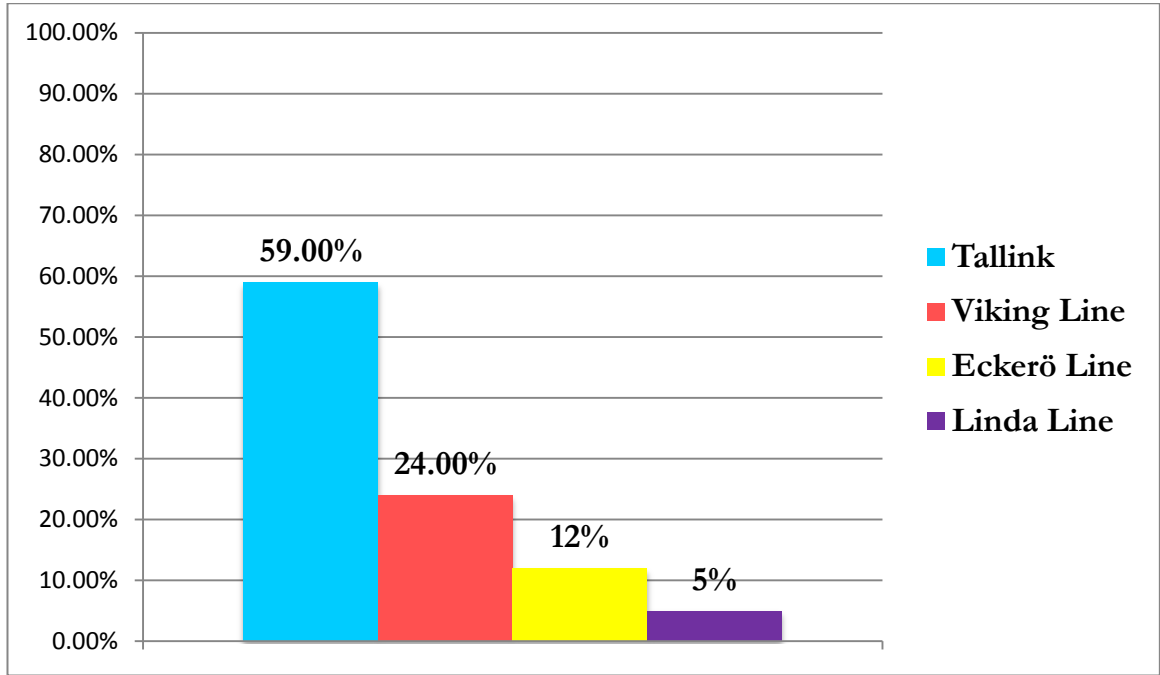


Figure 4. Market shares in passenger operations Finland - Estonia (Adapted from Tallink Silja 2013h, 9).

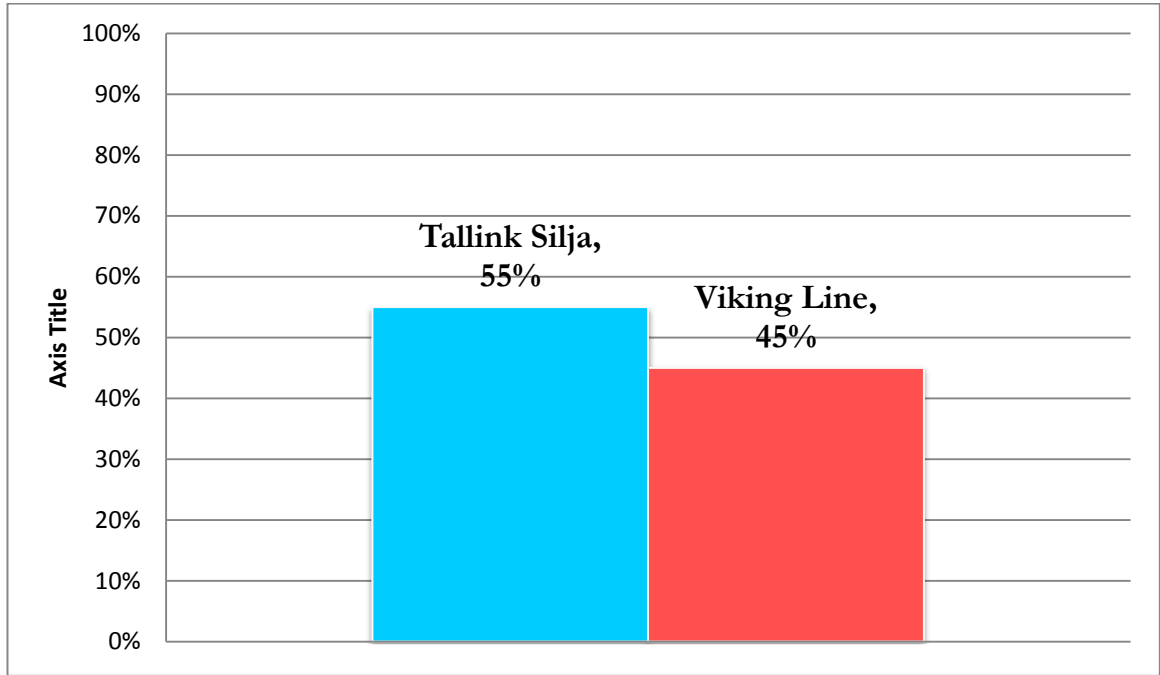


Figure 5. Market shares in passenger operations Finland - Sweden (Adapted from Shippax Market 2013, 194).

## 4.2 Sales Mix

In 2012 Tallink Silja's total consolidated revenue amounted to EUR 943.9 million, of which ticket sales were EUR 241.0 and sales of cargo transport EUR 102.8. EUR 517.5 million was the total from stores sales on board and on land, contributing over 50 % of the total revenue.

According to Tallink Silja's Cargo Sales Manager Marina Hasselblatt, on-board sales play the biggest role in the revenue structure, making up 59 % of the total revenue. It is important to attract passengers to spend money on-board the ships and sometimes it is a big challenge. The second most important aspect is the ticket sales being 28 %, and third is cargo with 11% and other 1 % (figure 6) (Hasselblatt, M. 17 Oct 2013).

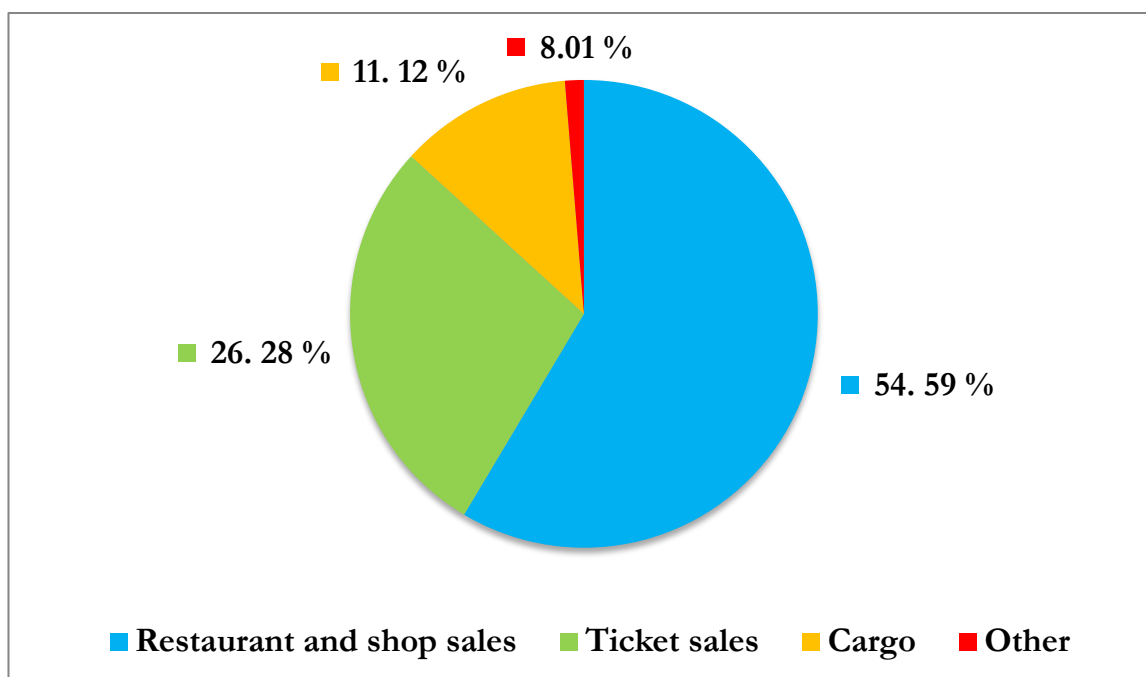


Figure 6. Sales Mix Tallink Silja (Adapted Fagerström, H. 29 Oct 2013).

Tallink Silja has compiled statistics about how their annual revenue is determined as a percentage on each route. In 2012 the Finland – Sweden and Finland – Estonia routes presented in total 70.5 % and in 2011 72.6 % of the company's annual revenue, making these routes very important for the company. Below are listed all routes and their share of the total revenue. The "other" category includes revenues of vessels that were previously on the Finland – Germany route and mainland shops (Table 4).

Table 4. Percentages of total revenue in geographical segments (Adapted from AS Tallink Grupp Yearbook 2012, 30).

<b>Route</b>	<b>2012</b>	<b>2011</b>
<b>Finland - Sweden</b>	<b>38.2 %</b>	<b>40.8 %</b>
<b>Finland - Estonia</b>	<b>32.3 %</b>	<b>31.8 %</b>
Estonia - Sweden	12.1 %	12.0 %
Sweden - Latvia	7.0 %	6.9 %
Other	10.4 %	8.5 %
Total	100 %	100 %

### 4.3 Pricing

Pricing in maritime traffic is based on the demand and supply. In peak season prices are set higher due to increased demand. In peak season times many of the ships are fully booked for weeks ahead, and the amount of cargo shipped is reduced in order to create more space for passengers who will spend money on-board. Peak season times in passenger traffic are normally considered times when Europeans have their vacations. Scandinavians normally take their summer vacations between June and August, whereas other Europeans between July and September. Therefore the peak of the season is normally between June and September. Winter vacation is usually taken in February, but these are only a few week peaks in a year and not really as significant as the peak season. Also at times before Christmas, between November and early December the amounts of passengers are normally higher than average, but only for a short period of time.

The price war between Viking Line and Silja Line is nothing new. It dates all the way back to the 1960's when both companies reduced their prices to gain more passengers. The idea was to get more people on cruises and to spend more money on-board the ships. When ticket prices were lowered, prices of alcohol and food were increased. On longer routes the importance of on-board sales is more important than on short routes, due to the higher operating costs. The share of on-board sales varies a lot. In some traffic like the discontinued Bothnian Bay route, the amount was over 50 %. That's



why ticket prices were kept lower than what was profitable since people spent so much money on-board instead (Dumell 2007, 85-87,131-133).

#### **4.3.1 Pricing Decisions**

Tallink Silja's ships sail everyday according to a set timetable. Sometimes ships are not using full capacity, and some trips are not profitable. In some situations when the ships are sailing despite not being at full capacity it is better to sell the tickets with what the contribution margin is. These situations are the following:

- The ships would otherwise sail half empty
- Not change in fixed costs
- Not require variable marketing or administrative expenses
- Not affect regular sales.

(Adapted from Braun & Tietz 2013, 462.)

If the ticket sale price is high enough to cover the variable costs the company is provided with an additional operating profit and also possible profit from sales on-board. Passengers may find these kinds of deals often on companies' websites as "Get away" deals or "Last Minute Deals" (Braun & Tietz 2013, 462-463).

Pricing decisions are made when the company has information in the some of these basic questions:

- What is the reasonable markup?
- How much are customers willing to pay?
- Are we a price-taker or a price-setter for this product?

(Adapted from Braun & Tietz 2013, 465.)

Maritime traffic can be either a price-taker or price-setter business. In passenger traffic the industry is more of a price-taker, because there is heavy competition, the service is not unique and the pricing approach emphasizes target costing. In cargo transportation maritime traffic is also a price-taker, but sometimes it can also be a price-setter. This is especially true when there is more demand to transport goods, there is less competition, and the pricing approach emphasizes cost-plus pricing. However, these occasions are quite rare and are likely to occur when the passenger traffic is in a peak season, reducing the amount of cargo space in ships. That is when a company can set up a desired profit by increasing the prices (Braun & Tietz 2013, 465).

#### 4.3.2 Target costing

Since maritime traffic is a price-taker the company emphasizes a target costing approach to pricing. Table 5 below shows how it is been calculated.

Table 5. Target Cost (Braun & Tietz 2013, 466).

<b>Revenue at market price</b>
<b>Less: Desired profit</b>
<b>= Target total cost</b>

Since customers set the market price, often stockholders have to set to a low annual return in the company's assets. In order to stay in business and to target to better income, companies need to use strategies to achieve it. This includes the following:

1. Cut fixed and variable costs
2. Increase sales volume
3. Add new products
4. Create and sell more of a unique service

(Braun & Tietz, 466.)

### 4.3.3 Pricing on the Finland – Estonia route

According to a July 2011 news article in *Taloussanomat*, the time of the cheapest cruises from Helsinki to Tallinn would be over. This is due to rising fuel costs that pressure shipping companies to start raising their prices. In July 2011 according to *Taloussanomat* the cheapest cruises were EUR 10-20. However in November 2013 Viking Line advertised mini cruises from Helsinki to Tallinn starting as low as EUR 4 for its member card holders. However regular day cruises were advertised starting from EUR 18, whereas Tallink Silja advertised 22 h cruises to Tallinn starting with EUR 35 (*Taloussanomat*, 2011; Viking Line 2013b; Tallink Silja 2013a).

In November 2013 Eckerö Line's advertises cheapest crossings to Tallinn starting EUR 19 for S-card members. Regular prices are closer to EUR 30. Linda Line has ceased operations for the winter and continues traffic again in the spring of 2014 (Eckerö Line 2013a; Linda Line 2013).

All of these three main players have their own member ship programs, and passengers holding these cards are occasionally eligible for discounts and special deals. Tallink Silja's member ship program is called Club One, Viking Line's is called the Viking Club, and Eckerö Line is a part of the Finnish retailing cooperative organization S Group (Eckerö Line 2013b; Viking Line 2013c; Tallink Silja 2013f).

Peak season is summertime on Helsinki –Tallinn route. That is when the demand is the highest and shipping companies may set their prices higher up. Linda Line operates two catamarans and has traffic only on the summer season. Other times of the year its vessels are laid up. Especially winter time after New Year's is low season, and companies are trying to attract customers with extremely low prices. Late fall (November-December) is time for pre-Christmas parties and shipping companies are trying to attract people to spend pre-Christmas parties on board their ships. However this is only a short period of the year, and for the Christmas holidays the traffic quiets down.

In cargo operations Tallink Silja has price categories for departures, and depending on the amount of demand. If the demand is high, so is the price, but if the demand is low,

the prices will be low also. Tallink Silja also makes contracts with logistics companies according to how much they use Tallink Silja's services.

#### **4.3.4 Pricing on the Finland – Sweden route**

Tallink Silja's main competitor on the Finland-Sweden route is Viking Line. As of November 2013, on the Helsinki – Stockholm route, Tallink Silja offers cruises starting from EUR 50 whereas Viking Line offers from EUR 40. There is an enormous change in prices on weekdays compared to weekends. On Fridays and Saturdays Viking Line offers cruises for EUR 112-240 whereas Tallink Silja EUR 99-286 (Viking Line 2013b; Tallink Silja 2013a).

On the Turku – Stockholm route there are two departures daily for both Viking Line and Tallink Silja. The morning departure has less demand so the prices are also cheaper. For Viking Line, the prices in morning departures start from EUR 80 and evening departures from EUR 150. Whereas Tallink Silja's prices for morning departures start from EUR 35 and from EUR 52 in the evenings. Friday departures start at over EUR 100 for both companies. On Turku – Stockholm route there are more people coming from the countryside and going for leisure cruises. Also the sea voyage is shorter than between Helsinki and Stockholm, so for business travelers ships can be seen as a possibility among air planes. Day cruises from Turku to Åland and back have also been a success especially among retired people. Retired people come in groups from the countryside and go on a day cruise to do tax free shopping. (Viking Line 2013b; Tallink Silja 2013a).

Cargo pricing on the Finland – Sweden route is done according to the same strategy as on the Finland – Estonia route. Tallink Silja has set price categories for different departures, but depending on the logistics company, the price varies according to the usage. Tallink Silja's advantage on the Turku – Stockholm route is its ropax<sup>2</sup> vessel M/S Sea Wind. It carries only cargo, which helps the company to have more space on passenger

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<sup>2</sup> Ropax vessel is a ro-ro ship, which has a car deck. Ropax vessels carry mainly cargo, but also limited amounts of passengers (Dumell 2008, 15.)

ships for passengers' cars. This is important because it allows for trailers and machines that take a lot of space on car decks to easily loaded onto the M/S Sea Wind without compromising with the passenger vehicle amounts on other ships.

## **5 Sales on Routes**

The following chapter discusses Tallink Silja's cargo and passenger traffic. In section 5.1 I will discuss the sales on the Finland – Estonia route, and in section 5.2, the sales on the Finland – Sweden route, 5.3 Factors that affect Sales, 5.4 Factors that have Changed Sales, 5.5 Reasons for why all Traffic is not profitable and 5.6 Ways to Improve Sales.

### **5.1 Sales on Finland – Estonia route**

Tallink has operated its Helsinki – Tallinn route since 1990. Silja Line operated on the same route first with Silja Line's own brand in the 1990's and as of 2000 with the Super Sea Cat brand. Super Sea Cat operations were not part of Tallink Silja's acquisition in 2006. In the 2000's Super Sea Cat's market share varied between 5-8 %, before it ceased operations completely in 2008. Today Tallink Silja uses Tallink brand in traffic between Finland and Estonia, whereas Tallink Silja brand is used between Finland and Sweden. Between the years 2002-2012, Tallink's market share in passenger traffic has risen from 38 % to 59 %. Of all commercial traffic, Tallink's market share on the Helsinki – Tallinn route is 38 %. The yearly market trend of the Helsinki – Tallinn route can be seen in the diagram below (figure 7).

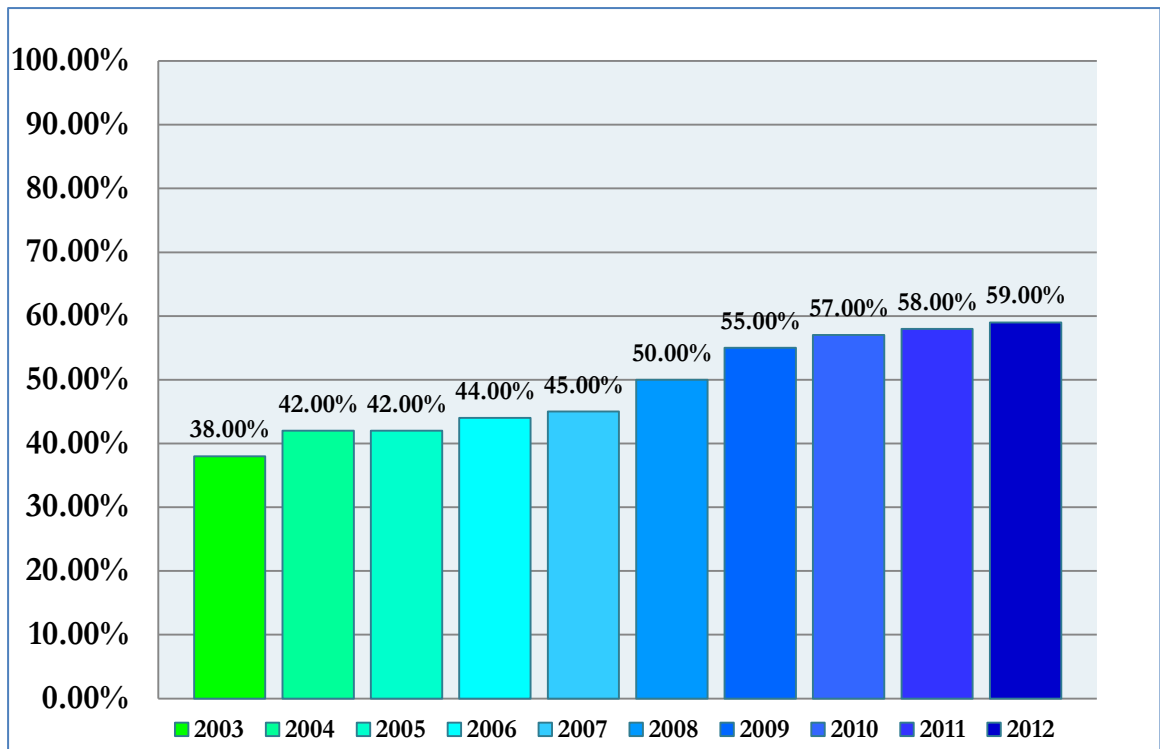


Figure 7. Tallink's passenger amounts trend of all passenger amounts. (Adapted from Fagerström, H. 29 Oct 2013)

Despite the end of tax-free sales on-board Helsinki – Tallinn ships in 2004, the Tallink Silja has been able to increase its total amount of passengers every year. Today, not only are Finnish people traveling on leisure trips to Tallinn, but Estonians are also traveling for leisure and work to Finland. After the new concept, the Tallink Shuttle was introduced in 2007, the total amount of passengers have almost doubled. Today, Tallink operates two fast-speed cruise ferry's between Finland and Estonia, which travel in just 2 hours from port to port. Below can be seen the development of Tallink's passengers totals. The percentage in describes the share of the total amounts transported on Helsinki – Tallin route. Since 2007 Tallink's market share has steadily risen and is currently over 60 % (Table 6).

Table 6. Tallink passenger amounts (Shippax Market 2013, 192.)

<b>Year</b>	<b>Helsinki - Tallinn</b>	<b>% of the total amounts<sup>3</sup></b>
<b>2012</b>	4,496,429	62.0 %
<b>2011</b>	4,270,254	61.3 %
<b>2007</b>	2,572,499	56.9 %

Tallink's main competitors on the Finland – Estonia route are Eckerö Line and Viking Line. They both operate from Helsinki to Tallinn with one ferry each. Both competitors have managed to increase their sales over the last few years. Comparing Viking Line's passenger totals from the years 2007 and 2012 reveal that Viking Line has managed to almost double its numbers. A reason for this might be their newly-built M/S Viking XPRS, which was delivered in 2008 and shuttles between two cities in 2,5 hrs. Viking Line has more departures and a shorter sea voyage making it more competitive with Tallink's shuttle ships. As of 2013 Eckerö Line has also modernized its fleet, replacing the old M/S Nordlandia with a fast cruise ferry, the M/S Finlandia. This allows Eckerö Line to directly compete against Tallink's shuttle ships, and it will be seen in few years whether it will be able to increase its sales. Below are shown the passenger amounts from Tallink's two competitors (Table 7). (Fakta om Fartyg 2013a; Fakta om Fartyg 2013d; Fakta om Fartyg 2013e).

Table 7. Competitors passenger amounts Helsinki Tallinn route (Shippax Market 2013, 192.)

<b>Year</b>	<b>Eckerö Line</b>	<b>Viking Line</b>
<b>2012</b>	921,277	1,833,149
<b>2011</b>	938,351	1,762,136
<b>2007</b>	857,121	1,091,428

<sup>3</sup> Percentage of total passengers amounts includes the total passenger amounts of Tallink, Viking Line and Eckerö Line

Tallink has been a market leader in cargo operations on the Helsinki – Tallinn route since 1999. In 1999 Tallink transported nearly 50,000 cargo units in a year. In the early 2000's the total amounts remained quite steady, but since 2004 the amount of cargo being transported has been steadily increasing. In 2006 Tallink transported 100,000 cargo units, and steadily increased until 2009 when there was a slight decrease. Since 2010 the numbers have been increasing again, and as of 2012 Tallink broke its new record of transporting almost 140,000 cargo units. The market share trend between 1999-2012 can be found in Attachment 1. Below are Tallink's transported cargo units on the route and the percentage of the total cargo units transport compared against Tallink's competitors (Table 8).

Table 8. Tallink cargo units (Shippax Market 2013,192.)

<b>Year</b>	<b>Finland – Estonia</b>	<b>Percentage % of the total amounts</b>
<b>2012</b>	136,142	72,0 %
<b>2011</b>	118,414	48.4 %
<b>2007</b>	112,285	55.7 %

Compared to Tallink's rivals the difference in the amount of cargo transported is huge. Whereas Tallink transports over 140,000 cargo units a year, Eckerö Line and Viking Line remain well below 100,000. However, as mentioned earlier transporting cargo units make up only 11 % of Tallink's annual revenue, so for Tallink's competitors it might be smarter to focus on increasing passenger traffic. From 2005 to 2013 Eckerö Line operated a ropax vessel, the M/S Translandia, which was transporting cargo between Helsinki and Tallinn. However when the new M/S Finlandia was taken into service, the M/S Translandia was sold. It will be interesting to see in the next few years whether the cargo amounts of Eckerö Line decrease due to them only having one vessel. However, there is also a chance they might see an increase due to better efficiency. Viking Line has experienced a steady increase in the amount of cargo it transports. This is partly due to its new M/S Viking XPRS ship that can handle more cargo than their older vessel. Below Table 9 shows the amounts of competitors transported cargo units.



Table 9. Competitors cargo units (Shippax Market 2013, 192.)

<b>Year</b>	<b>Eckerö Line</b>	<b>Viking Line</b>
<b>2012</b>	73,222	53,003
<b>2011</b>	75,292	51,095
<b>2007</b>	58,416	30,730

## 5.2 Sales on Finland - Sweden route

Silja Line has maintained operations on the Helsinki – Stockholm route and the Turku – Stockholm route for over a decade. Silja Line's main competitor in traffic between Finland and Sweden has always been Viking Line. In the past Viking Line used to have a slightly bigger market share in passenger traffic on the Finland – Sweden route compared to Silja Line. The total passenger amounts from 1990 to 2006 are listed below in Table 10.

Table 10. Passenger amounts FIN – SWE 1990- 2006 (Modified Dumell 2008, 75.)

<b>Year</b>	<b>Viking Line</b>	<b>Viking Line %</b>	<b>Tallink Silja</b>	<b>Tallink Silja %</b>
<b>1990</b>	5,748,000	74	2,022,400	26
<b>1991</b>	6,277,300	72	2,465,100	28
<b>1992</b>	6,409,800	71	2,585,000	29
<b>1993</b>	5,414,000	53	4,734,100	47
<b>1994</b>	4,357,800	48	4,722,800	52
<b>1995</b>	4,549,000	46	5,259,000	54
<b>2000</b>	5,445,800	52	5,006,300	48
<b>2005</b>	5,372,300	53	4,688,100	47
<b>2006</b>	5,622,000	58	4,151,300	42

Since 2007 Silja Line has managed to gain over 50 % of the passenger amounts on both the Helsinki – Stockholm and Turku – Stockholm routes. On both routes the trend has been going up since 2009. Compared to the early 1990's, Silja Line has man-

aged to gain a lot better market share compared to Viking Line. The change is significant--increasing from 26 % to 55 % in 22 years. However in cargo transportation between Helsinki – Stockholm, Viking Line has been a market leader over the last couple of years. The market trend of total passenger amounts can be found in Attachment 2. Below are shown the passenger amounts on the Helsinki - Stockholm route (Table 11).

Table 11. Passenger amounts Helsinki – Stockholm (Shippax Market 2013, 194.)

<b>Year</b>	<b>Tallink Silja</b>	<b>Tallink Silja %</b>	<b>Viking Line</b>	<b>Viking Line %</b>
<b>2012</b>	1,318,256	54.8 %	1,085,387	45.2 %
<b>2011</b>	1,315,020	54.6 %	1,093,981	45.4 %
<b>2007</b>	1,297,054	52.3 %	1,181,650	41.7 %

Viking Line has a greater market share in cargo operations between Helsinki and Stockholm. This trend has been relatively stable since 2007. The Helsinki – Stockholm route only has one daily afternoon departure. The amount of cargo shipped on this route is considerably less than on the Turku – Stockholm route. Below are shown the amounts of cargo units transported (Table 12).

Table 12. Cargo units transported Helsinki – Stockholm (Shippax Market 2013, 194.)

<b>Year</b>	<b>Tallink Silja</b>	<b>Tallink Silja %</b>	<b>Viking Line</b>	<b>Viking Line %</b>
<b>2012</b>	19,280	47.0 %	21,724	53.0 %
<b>2011</b>	19,662	47.4 %	21,852	52.6 %
<b>2007</b>	19,884	45.5 %	22,889	54.5 %

On the Turku –Stockholm route Tallink Silja has also managed keep its over 50 % market share in passenger traffic, and in the last few years the trend has been going up. Since 2007 Viking Line’s passenger amounts have dropped significantly on the Turku – Stockholm route. Tallink Silja managed to increase passenger amounts before 2012, when its passenger amounts slightly decreased. In 2013 Viking Line introduced its newly-built vessel, the M/S Viking Grace on the Turku – Stockholm route, and by the

end of the year it will be interesting to see whether Viking Line has managed to increase its sales on this route. The market trend in passengers can be found in Attachment 3. Below are the passenger amounts on Turku – Stockholm route (Table 13).

Table 13. Passenger amounts Turku – Stockholm (Shippax Market 2013, 194.)

<b>Year</b>	<b>Tallink Silja</b>	<b>Tallink Silja %</b>	<b>Viking Line</b>	<b>Viking Line %</b>
<b>2012</b>	1,588,361	56.0 %	1,247,241	44.0 %
<b>2011</b>	1,670,763	56.9 %	1,264,165	43.1 %
<b>2007</b>	1,631,979	53.4 %	1,421,812	46.6 %

In cargo transportation Tallink Silja is a market leader. However between Turku and Stockholm, Tallink Silja operates with two passenger ferries and one ropax cargo ferry, the M/S Sea Wind. Viking Line does not have a cargo vessel; it only operates with two passengers ships. Due to this reason the cargo unit amounts transported are not quite comparable. Below are shown the amounts of cargo units transported (Table 14).

Table 14. Cargo units transported Turku – Stockholm (Shippax Market 2013, 194.)

<b>Year</b>	<b>Tallink Silja</b>	<b>Tallink Silja %</b>	<b>Viking Line</b>	<b>Viking Line %</b>
<b>2012</b>	73,702	67.4 %	35,669	32.6 %
<b>2011</b>	75,498	68.1 %	35,293	31.9 %
<b>2007</b>	67,240	66.9 %	33,299	33.1 %

It can clearly be seen that after the acquisition of Silja Line by Tallink, the new company has managed to increase sales on all its routes. Tallink Silja has made good decisions on how to increase sales in both passenger and cargo traffic.

### 5.3 Factors that affect Sales

According to Marina Hasselblatt, cargo prices and the volume of cargo have the biggest effect on sales of Tallink Silja's cargo operations. It is important to match the price with the demand, so that the company can maximize the cargo volume on the ships. If

the ships sail half empty it will result in a big loss for the company. Tallink Silja makes yearly contracts with logistics companies, but throughout the year contracts can be revised in order to make sure the transportation volumes are high. Tallink Silja also constantly follows how its rival companies behave. It is vital not to lose any contract customers to rival companies, because getting them back is difficult once they switch over to another firm (Hasselblatt, M. 17 Oct 2013).

There has been a major change in passenger traffic over the past twenty years. After the Soviet Union collapsed and Estonia gained its independence in 1991, travelers have become more interested in traveling to Estonia and to other Baltic countries. The Finland – Sweden route has lost some of its interest among leisure travelers, whereas the Helsinki – Tallinn route's amount of passengers has started growing. Also in the past ten years cheap airline companies have attracted customers away from Tallink Silja. Nowadays it is getting cheaper to fly inside Europe due to low airline ticket prices. People are more interested in spending weekends or short vacations on the other side of Europe instead of cruising to a country nearby. Also EU's Schengen agreement has made traveling inside Europe more flexible and easier, bringing EU countries closer together (Hasselblatt, M. 17 Oct 2013).

## **5.4 Factors that have Changed Sales**

During the history of maritime traffic between Finland, Sweden and Estonia, there has been historical changes in the world that have affected maritime traffic. These include for example the collapse of Soviet Union, the economic crises in the early 1990's and again from 2008 onwards. There have also been legislative changes that have forced shipping companies to adapt to market changes, and there have been incidents that have changed passengers' attitudes towards maritime traffic.

### **5.4.1 Wärtsilä Marine's Bankruptcy**

In 1989 a Finnish shipyard, Wärtsilä Meriteollisuus (eng. Wärtsilä Marine) declared bankruptcy after failing to make any profit in the past few years of its existence. At the time of the bankruptcy both Viking Line and Silja Line had ships being built by

Wärtsilä Marine's shipyards. Maritime counsel Harry Österberg remembers how Silja Line had to pay FIM 1 billion instead of FIM 700 million to cash its new cruise ferries M/S Silja Serenade and M/S Silja Symphony out from the bankrupt shipyard. This was far more than the company had first expected to pay. This caused huge financial problems for Silja Line's parent company Effjohn Holding Oy, which already had to pay to cover Rederi Ab Sally's debts. Viking Line had only one new ship M/S Cinderella being built on the shipyard when the bankruptcy occurred, and because it was only a few weeks away from being delivered, the cost to purchase it from the shipyard did not rise dramatically (Dumell 2008, 118-120).

In the early 1990's an economic recession hit Europe and many shipping companies suffered because of it. In 1993 Rederi AB Slite, one of the two remaining owners of Viking Line declared for bankruptcy and the newly-built M/S Europa was sold to Silja Line. Viking Line's remaining owner SF Line AB continued operations, but in 1993 Viking Line lost in total four ships owned by Rederi Ab Slite, and suffered a shortage in its fleet size for several years (Dumell 2008, 118-120).

#### **5.4.2 Safety Concerns**

Before the mid 1990's there had not been too many serious incidents in the maritime traffic between Finland, Sweden, and Estonia. However in 1994, everything changed. On 4 March 1994, M/S Sally Albatross ran aground close to the Finnish shore and started to sink. The crew managed to evacuate the passengers safely, and the ship was towed to shallow waters to save it from sinking. The ship suffered massive damages and the repairs ended up being very costly. The cause was later found to be poor crew training. (Onnettomuustutkintakeskus 1996, 16, 113)

On 28 September 1994, a very unexpected incident took place, and in one night completely changed the maritime traffic in Finland, Sweden and Estonia. The M/S Estonia set sail the previous evening from Tallinn to Stockholm with 989 passengers on board. Around 0100 heavy seas broke the Estonia's bow doors open and water flooded the car deck. The ship capsized in minutes and sunk. Only 137 passengers on board managed to save themselves. This included 94 passengers and 43 crew members. Of all 137

survivors only 26 were women. Below are shown the survivor amounts according to sex and as a percentage of the total passenger amounts (Table 15). Most of the survivors were young and strong men aged 20 - 44 who managed to climb out from the heeled ship. Most of the victims were Swedish (501) and Estonian (280). The incident caused a lot of discussion about the safety of passenger ships, and as result, many bookings were cancelled and volume of passengers plummeted (1997 Onnettomuustutkintakeskus 2000, 117, 175).

Table 15. Survivor amounts (Retrieved 1997 Onnettomuustutkintakeskus 2000, 117.)

<b>Sex</b>	<b>Survivors</b>	<b>% of total passenger amounts</b>
<b>Men</b>	111	22
<b>Women</b>	26	5
<b>Total</b>	137	27

After the incident it was soon revealed that many other ships, including Viking Line and Silja Line ships, had also experienced similar problems with their bow doors as the M/S Estonia did, but these problems had not been revealed to the public. Now shipping companies needed to win their customers' trust back in order to successfully continue operations (Dumell 2008, 105).

In the first few weeks after the M/S Estonia incident, over 20,000 Viking Lines trips were cancelled, and in 1995 the amount of passengers was 5 % less than in 1994. However, gradually the amount of customers increased again, and after the incident all shipping companies started to prioritize safety first (Sjöström 2009, 178-179).

Viking Lines former Marketing Director, Thomas Delden said that after the Estonia incident the amount of female travelers on cruises decreased dramatically. They refused to travel, lowering drastically the number of families that traveled on the cruises. In addition, the amount of work-related conference traveling greatly decreased. If one person in a group did not want to travel, then the whole group could not travel. A lot of Swedish passengers also refused to travel. Never before had so many Swedes died in

an accident. The catastrophe hit Silja Line the hardest, since at the time it had more Swedish clients than Viking Line (Dumell 2007, 127).

Retired captain Raimo Tiilikainen of the Suomen merivoimat (eng. Finnish Navy) mentioned in an interview held by MTV3 that today terrorism and fires are serious threats for passenger ships. Mr. Tiilikainen was the captain in charge of the rescue operation of M/S Estonia disaster, but he recalls that today it is very unlikely that a similar incident would occur. After the incident, shipping companies had to greatly lower the prices of tickets in order to attract customers again. However, this process took several years (MTV3. 2009, Dumell 2008, 127).

### **5.4.3 Changes in Tax Free Sales**

Finland joined the European Union (EU) in 1995, and after that it was only a matter of time before the tax-free sales on-board ships came to an end. On the 1 July 1999, tax-free sales were stopped on ship routes between two EU countries. However Finland received a special permit to continue tax-free sales as long as the ships stopped in Åland on their way. Since then the Helsinki – Stockholm ferries and Turku – Stockholm ferries have stopped in Åland in order to continue tax-free sales. Estonia became an EU country on the 1 May 2004, and on the same day tax-free sales between Helsinki and Tallinn were ceased. Viking Line was uncertain if traffic between Helsinki and Tallinn would remain profitable anymore, and as a result, it switched its cruise ferry, M/S Cinderella to another route and brought in a smaller and older ferry, M/S Rosella to replace it. However after 2004 shuttling between Helsinki and Tallinn has been a success so much, that Viking Line brought a brand new ship M/S Viking XPRS on this route in 2008. Nowadays ships between Helsinki and Tallinn sail in two hours, making commuting for business and leisure travelers easy. (Sjöström 2009, 185).

Lars Wendelin of Silja Line, records how the tax-free sales played a major role in the ferry traffic in the Bothnian Bay, where the on-board sales accounted for over 50 % of their profit. Silja Line had ships sailing between Vaasa and Umeå and after the tax-free traffic ended in 1999 the amount of passengers dropped dramatically. According to Wendelin, in 1999 Silja Line had almost one million passengers traveling in the

Bothnian Bay, but in 2000 only 300,000. When tax-free sales stopped the traffic died and in 2000 Silja Line discontinued operations in the Bothnian Bay. Table 16 shows the passenger amounts on Vaasa – Umeå route. After Silja Line ceased its operations a new company RG Line operated on the route for eleven years before going out of business in 2012 (Dumell 2008, 131, 136; Dumell 2007. Video).

Table 16. Passenger amounts Vaasa - Umeå (Information retrieved from Dumell 2007, 131.)

<b>Operator</b>	<b>Year</b>	<b>Passenger amounts</b>
<b>Silja Line</b>	1991	1,000,000
<b>Silja Line</b>	1995	800,000
<b>Silja Line</b>	2000	300,000
<b>RG Line</b>	2006	70,000

### 5.5 Reasons for why all Traffic is not profitable

According to Marina Hasselblatt, all traffic is not profitable due to tough competition among rival companies, operational expenses, and the wrong kind of marketing and fleet mismatch (Hasselblatt, M. 17 Oct 2013).

Tallink Silja's Captain of the M/S Star, Vahur Söstra adds that because traffic on routes is very seasonable, it is very difficult to make traffic profitable during the low season. The highest peak of traveling is during the summer season and lowest after New Year's. Also there is a huge difference among the weekdays. Most of the passengers on every route travel during the weekends, making Friday, Saturday and Sunday the busiest days of the week. However, if there was not any traffic on other days of the week, it would be difficult to have contracts with cargo operators and satisfy customers who travel due to their needs (Söstra, V. 26 Oct 2013).



Captain Tarvi-Carlos Tuulik of the M/S Superstar says that marketing plays a very important role so that customers can find the services they need. If the target market or the marketing ways are not correct, it is difficult to attract customers to travel on the ships (Tuulik, T-C. 30 Sep 2013).

Presented on the next page are the Helsinki – Tallinn route statistics of both passenger amounts and cargo units transported quarterly. Tables 17 and 18 show the trend how Q1 (January – March) is low season for passenger traffic and Q2, Q3 and Q4 high season. Q3 (July-September) is the time when most Europeans have their summer vacations which is the peak of the season. That is the time of the year when most of the people travel. In cargo transportation Q1 and for Q4 are low season. Most of the cargo is transported on high season when consumers are ordering goods. The low season is normally after New Year's when consumers are not spending money as much, due to Christmas Holidays. Q2 is the peak of the season for cargo transportation, it is before people have their vacations, whereas Q4 is more quiet since most of the people are on vacation.

The Statistics of the Finland – Sweden route passengers show that Q1 and Q4 is the low season, but Q2 and Q3 is when the season is at its peak, (Table 19). In transported cargo units the amount is steady throughout the year, (Table 20). This is explained because most of the cargo is transported between the Scandinavian countries (Finland, Sweden, Denmark and Norway), whereas on the Finland – Estonia route most of the traffic goes to other parts of Europe. The amounts of cargo transported between the Scandinavian countries are far less than to other European countries. Therefore the amounts can be divided equally throughout the year. There is a possibility for more potential to transport more cargo in Q2 and Q3, but it is not possible due to the lack of space onboard and to the longer sea voyage.

Table 17. Passenger amount Helsinki – Tallinn by quarters (Retrieved from Tallink Silja. 2013b.)

<b>Passengers</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
<b>2013</b>	895,000	1,208,000	N/A	N/A
<b>2012</b>	909,000	1,171,000	1,341,000	1,076,000
<b>2011</b>	879,000	1,092,000	1,257,000	1,042,000

Table 18. Cargo unit amount Helsinki – Tallinn by quarters (Information retrieved from Tallink Silja. 2013b.)

<b>Cargo units</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
<b>2013</b>	29,000	40,000	N/A	N/A
<b>2012</b>	34,000	36,000	32,000	29,000
<b>2011</b>	26,000	30,000	31,000	31,000

Table 19. Passenger amount Finland – Sweden by quarters (Information retrieved from Tallink Silja. 2013b.)

<b>Passengers</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
<b>2013</b>	631,000	700,000	N/A	N/A
<b>2012</b>	709,000	764,000	910,000	693,000
<b>2011</b>	739,000	786,000	925,000	715,000

Table 20. Cargo unit amount Finland – Sweden by quarters (Information retrieved from Tallink Silja. 2013b.)

<b>Cargo units</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
<b>2013</b>	29,000	24,000	N/A	N/A
<b>2012</b>	25,000	23,000	22,000	24,000
<b>2011</b>	25,000	25,000	22,000	24,000

## 5.6 Ways to Improve Sales

Improving sales is a constant battle for a company. There are several profitability factors companies use to improve sales. These include changing the sales price, sales volume, variable costs and fixed costs. There are two ways in which a company can affect the sales price. It can either lower it to increase sales, or decrease it to specify the product suitable for a certain target group. Usually this product does not have as much competition. However, if the sales price is decreased, the pressure to sell more to break even is higher, but increasing it automatically will lower the sales volume. By decreasing fixed costs a company can make its operations more efficient, and keep its sales price at the status quo. By decreasing variable costs such as starting to use different suppliers for delivering products, and negotiating discounts and better terms of payments, the sales price may be kept the same (Braun & Tietz 2013, 411-415).

According to Marina Hasselblatt, Tallink Silja is working all the time to improve its profitability. Even if Tallink Silja is a market leader in some of its routes, it still needs to work to develop its services in order to keep its market share (Hasselblatt, M. 17 Oct 2013).

In order to improve passenger traffic Tallink Silja is trying to find new customer groups, and to make them more interested in leisure cruises. Tallink Silja must also promote business to foreign travelers and those workers traveling on business. Arranging different kinds of theme cruises may also attract more customers (Hasselblatt, M. 17 Oct 2013).

In order to improve the profitability of cargo operations, Tallink Silja constantly follows the market trends, export and import statistics, and how the company is doing compared to its rivals. If a logistics company is not transporting as many units as before, they will directly contact the customer in order to understand why this is the case. Tallink Silja is constantly negotiating with logistics companies in order to design contracts that are more competitive than what is being offered by rival companies (Hasselblatt, M. 17 Oct 2013).

Captains Vahur Söstra and Tarvi-Carlos Tuulik add that in order to improve profitability of commercial traffic, it is important to make the time spent in berth as short as possible in order to avoid costly harbor fees, and to make loading and unloading of the vessel as efficient as possible. There are also several other ways to cut costs to make traffic more profitable. For example, the use of tug boats and harbor pilots when mooring or disembarking can increase costs enormously, but because Tallink Silja does not use either one of these, it gains a significant advantage. However, there are always costs involving the crew of the vessel and fuel charges. It is difficult to lower crew costs, because the ships need to always maintain enough crew members in order to operate efficiently, but if the timetable is not too tight, ships may precede on their journeys with a slower pace, making the fuel costs cheaper (Söstra, V. 26 Oct 2013; Tuulik, T-C. 30 Sep 2013).

## 6 Future Challenges

This chapter discusses future challenges in maritime traffic. In chapter 6.1 sustainability issues will be discussed with two subchapters focusing on competitive strategy and environmental accounting. Chapter 6.2 analyzes new emissions regulations along with various factors affecting traffic and prices. I will also discuss the criticism leveled against new regulations.

### 6.1 Sustainability

Sustainability is important in today's business world, and companies are trying to implement positive changes by considering environmental issues. It is very important for companies to avoid any negative feedback regarding environmental matters. As we have seen, negative feedback in environmental issues can lead to huge boycotts around world, and affect the company's reputation and sales for years. Companies are using sustainability as a driving force for continued evolution (Braun & Tietz 2013, 886).

Often sustainability is defined as the following:

"Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs." (Brundtland Report, 1987.)

Three main reasons why companies embed sustainability in their businesses are the following:

Three main reasons why companies embed sustainability in their businesses are the following:

1. Cost reduction
2. Regulatory compliance
3. Stakeholder influence

(Adapted from (Braun & Tietz 2013, 886)

### **6.1.1 Competitive Strategy**

Companies have started to implement programs that support environmental sustainability. For example, hotels have advised their customers to reduce the amount of water and electricity they use while staying at the hotel especially when they are not in the room, and also giving customers the option of reusing their sheets and towels. These procedures have lowering housekeeping costs, and overall costs for the hotel (Braun & Tietz 2013, 887).

It is also more and more common for governments to set strict rules to comply with emissions, air quality, waste management etc. It is beneficial for a company to evolve and adhere to these standards because in many cases they will be eligible for government tax credits or grants. These rules are expected to become more stringent in the future, so companies that are already adapting will be more flexible when it comes time to implement future changes (Braun & Tietz 2013, 887).

Stakeholder influence is often seen as being very important, and as a result, companies will increase their commitment to environmental matters. Banks are also taking into account environmental issues when making credit decisions. Investors seek companies that are proactive in sustainability and for this reason, many companies have started to publish sustainability reports (Braun & Tietz 2013, 888).

A competitive strategy helps companies cut costs and gain more revenues. This can also result in a higher market share, and a better reputation for the company (Braun & Tietz 2013, 889).

### **6.1.2 Environmental Management Accounting**

In order for companies to support sustainability, they use Environmental Management Accounting (EMA) to collect data about costs related to sustainability. This monetary information is traditionally collected and includes the material costs of products, cost of resources related to products, waste and emissions costs, and research and development costs. Companies today also use physical information, which includes the

amount of solid waste generated, gallons of wastewater generated, and pounds of packaging recycled. By monitoring these costs a company can clearly see what kind impact changes in sustainability have on them (Braun & Tietz 2013, 891).

In 2005, Tallink was criticized for its environmental policies when it was revealed it had released its waste waters into the sea, instead of bringing them to shore. The company claimed it had filtered the water according to set standards before releasing it to the sea, but due to the negative publicity this generated in the media and subsequent boycott threats from customers, the company quickly announced that it will pump all waste waters on land in the future (YLE Uutiset 2005).

Today, Tallink Silja takes into account environmental issues very seriously. In 2008, Tallink Silja received an Environmental Management Standard ISO 14001. Tallink Silja has also mentioned its ships use low sulfur fuel, waste oils are recycled, all waste waters are pumped onshore and ships recycle their wastes (Tallink Silja 2013e).

## **6.2 New Emissions Regulations in 2015**

On January 1<sup>st</sup> 2015, new EU sulfur regulations will come into effect. According to these new rules, ships are allowed to contain only 0,1 % of sulfur in their bunker fuel in certain areas of the world. These emissions regulations will first come into effect in so-called Sulfur Emission Control Areas (SECA) and by 1 January 2020, globally. These SECA areas include the North Sea, the Baltic Sea, and coastal areas of California. On a global scale as of 1 January, 2012, the sulfur amounts in fuel were 4,5 % > 3,5 %, but as of 1 January 2020, they have to be 0,5 %. In SECA areas as of 1 January 2010, 1,5 % > 1 %, but as of 1 January 2015 these levels must only be 0,1 %. Figure 8 below shows on red color the SECA area in Europe (Eriksson 2009.)



Figure 8. S/ECA area in Europe (Fagerström, H. 29 Oct 2013)

The idea behind these regulations is to reduce the amount of sulfur oxides ( $\text{SO}_x$ ), nitrogen oxides ( $\text{NO}_x$ ), particulate matters (PM) and carbon dioxide ( $\text{CO}_2$ ) released into the air. In order to meet these new emissions regulations, there are several different options that shipping companies can adopt. As a short-term solution, shipping companies may install so-called sulfur scrubbers<sup>4</sup> in ships, which reduce the amount of emissions that a ship's funnels release into the air. Another possibility is to use lighter diesel fuel, which is costly, but does not require modifications to ships (DNV Group 2013. Video).

A long-term solution would be to build new ships that use liquefied natural gas (later LNG) as their fuel. Viking Line has built one vessel, the M/S Viking Grace, which uses LNG as its fuel. It was taken into service in 2013 (DNV Group 2013. Video).

According to the Finnish Transportation Safety Agency's (later Trafi) report there are also other long-run possibilities to adapt to the new emissions regulations. These include e.g. better propulsion technology to be used on ships, usage of larger ships, re-

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<sup>4</sup> Sulfur scrubbers are scrubbers installed inside the funnels of ships catalyzing the amount of pollution released to the air. (Clean North Sea Shipping 2013)



duced speed at sea, shorter time in port, environmentally-friendly energy, and an efficient power plant (Trafí 2011, 19-20; DNV Group 2013. Video).

### **6.2.1 Criticism towards New Regulations**

Shipping companies have criticized these new emission regulations. Some reasons for criticism are following.

- Transporting expenses will increase
- New emissions regulations only affect Northern Europe
- Distance from Finland to the middle of Europe is long and companies fear transporting may shift from sea to land

(Trafí 2011, 16.)

According to an interview on the 3T website of Finnlines, Chairman of the Board, Emanuele Grimaldi doesn't see sulfur scrubbers as a solution to the new emissions regulations. He sees sulfur scrubbers as taking too much space on ships, endangering the stability of a vessel, and consuming too much energy. His solution would be instead to make transporting more efficient. This would include keeping ships from sailing only half empty, operating with larger ships, and reducing the cruising speed. He also wishes oil companies would start producing low sulfur fuels (Lehtinen 2012, 3T).

### **6.2.2 Effects on Traffic and Prices**

According to an interview with Marina Hasselblatt, the effects of the new EU sulfur regulations will automatically increase the prices in both passenger ticket prices, as well as in cargo sales prices. The new low sulfur diesel is more costly which leads to increasing fuel surcharges. At the moment no one knows for sure what is going to happen, but Tallink Silja and its competitors are all in the same situation. Tallink Silja's advantage, however, is its modern fleet, which makes it easier to implement new modifications. New ships will stay in service for years to come and the modifications will have time to pay back the costs (Hasselblatt, M. 17 Oct 2013).

Due to rising fuel costs in 2015, there is speculation that some cargo transportation would shift from sea to land. Especially cargo transported from Germany and Poland to Scandinavia. This would mean more trucks driving through the Baltic countries so-called route “Via Baltica”. The longer the sea voyage is, the more the new emissions regulations will have an affect on prices. This would eventually mean an increase in cargo transported across from Estonia to Finland, since the sea voyage is short (Fagerström, H 29 Oct 2013).

According to Trafi’s report, an EU study estimates additional fuel costs would raise EUR 200-1,200 million a year. However this study didn’t take into consideration the usage of sulfur scrubbers. Another survey estimates additional fuel costs to rise EUR 900 - 1,100 million a year in usage of low sulfur diesel, but if sulfur scrubbers are being used costs would be EUR 170-560 million a year (Trafi 2011, 14.)

## **7 Discussion**

Previous chapters of this research have introduced the background of this research, introduction of the company and research, traffic revenues, research methodology, sales in traffic, and future challenges. This chapter will discuss the reliability and validity in 7.1, the key findings of the research in chapter 7.2 and ideas for the future of Tallink Silja in chapter 7.3.

### **7.1 Reliability and Validity**

Reliability is essential when conducting a research and therefore when conducting these interviews, I tried to gather as much reliable data as possible. I also gathered statistics from different sources matching them together to make sure that the statistics are correct and reliable. Validity of this research can be proven, since the information used is current or only few years old. However since the markets and factors affecting sales are changing constantly, these findings need to be revised in the future. In all I may say that all findings are based on theoretical bases which are valid and reliable.

### **7.2 Key Findings**

In the beginning of the research it became clear that interviewing the right people inside the company helps to find the answers to questions, and gaining different kinds of perspectives. In a large corporation like Tallink Silja, it is important to make sure that everyone's goals are the same, as are the ideas and strategies to achieve these goals.

Researching information regarding sales volumes (both passenger and cargo) was important, because it has helped me to understand what kind of volumes are on specific routes and how the volumes are divided. This also allowed me to better understand the market trends in commercial traffic, and the reasons for traveling on-board cruises and ferries. The sales structure of the companies revealed what factors comprise most of the company's income. The knowledge that on-board sales make up almost 60 % of the sales income makes it easier to understand why a shipping company does not always make a profit even if the car deck is fully loaded with trucks.

Unused free capacity on ships can pose a threat to a shipping company. If ships sail when their car deck or passenger capacity is not at full capacity, it raises questions about whether or not the ship is being utilized on the proper route. Sometimes ships are either too large or too small for a route, and companies need to shift their ships in order to find out which one is the most suitable for a certain route. Modern ships are designed so that renovating them to become more suitable for different traffic is possible. This means that for example, some companies may reduce the amount of cheap cabins on-board next to the car deck in order to create more space for cargo. If they decide later that more cabins are needed instead of cargo space, the ship can be modified vice versa. It is also possible to rebuild ships by adding floors or an entire new section to them. This project is conducted by cutting the ship into two parts, floating a new section between and welding it all back together. Silja Line considered this in the 1980's for its ships, the M/S Silvia Regina and the M/S Finlandia, but instead of rebuilding them it decided to order new ships. For example Stena Line conducted this kind rebuilding project to its vessel, the M/S Stena Hollandica in 2007 (Fakta om Fartyg, 2013f; Malmberg, T. 2007, 147).

It has also been important to learn the current situation of maritime traffic. Factors that have affected sales in the past and factors that are likely to affect sales in the near future are important to understand. It is interesting that decisions made in the past have sometimes caused one company to almost go into bankruptcy, whereas for another company the same strategy may have proven to be a success. In 1997 Tallink was close to going bankrupt, but in 2006 it acquired one of its rival companies and is now the market leader in maritime traffic in the Northern Baltic Sea region. Changes in the emissions regulations over the next few years will have a major effect on maritime traffic, and that is why it is important for companies to start adapting to these changes as soon as possible in order to remain competitive in the future. Tallink Silja's advantages compared to its competitors are there large variety of routes and modern fleet. Tallink Silja links four countries, making it easy especially for logistics companies to use Tallink Silja's services when transporting goods. The average age of Tallink Silja's ves-

sels is 7.7 years, whereas Viking Line's ships average age is 19.4 and the average age of all cruise ships in the world is 16.2 years (Tallink Silja Oy. 2012c).

Shipbuilding in Finland has battled from crisis to crisis. Earlier in this research it was mentioned about the bankruptcy of Wärtsilä Marine in 1989 and its consequences to the shipping companies. In 2013 STX Finland the successor of Wärtsilä Marine, announced that it was closing one its shipyards in Rauma and 600 people will lose their jobs. STX Finland has suffered of financial difficulties for several years and has not been able to make any profit in the last six years. Problems faced 25 years ago in shipbuilding business are a reality again. (Yle Uutiset 2013)

Safety has always to be taken seriously in maritime traffic. Ships with car decks are vulnerable for fires and to leakages. Especially today when trucks carry dangerous goods, there is always a risk that a fire may erupt and it may danger the ship and its passengers. Since the September 11, 2001 attacks terrorism has also been a threat for ships. However harbor areas are today so called ISP areas, they are fenced and strictly guarded in order to avoid any intruders to enter them. In the end it is also the responsibility of the ship's crew to double check that all cargo and passengers on board cannot be a threat for anyone.

Logistics companies are battling against rising operating costs regarding the transportation of goods. In the past few years, fuel prices and taxes have gone up, forcing logistics companies to try to find new solutions in order to keep operations efficient. Competition is fierce and customers are not willing to pay a higher price for their goods. As a solution some logistics companies have started to use cheaper labor from Russia and other former Eastern Block countries. However, this may also prove to be a liability because sometimes cargo transported on vehicles from these countries does not meet the safety requirements in Finland, Sweden, and Estonia. Many times, the drivers are not aware of the procedures required in these countries in order to transport certain goods. Most important are requirements for transporting dangerous goods on-board a ship. In the case that dangerous goods that are not authorized to be transported on a ship end up being found on-board, it can lead the shipping company to be fined or in a

worst- case situations, lead to immediate evacuation of the whole ship. The resulting financial loss can be thousands or millions of euros. Shipping companies need to take these threats into account, and intensify their surveillance, and also do a better job of communicating about the safety requirements with these drivers.

### **7.3 Ideas for the Future of Tallink Silja**

In an interview conducted with Captain Tuulik, he explained that now that Tallink Silja has a sufficient quantity of vessels and operations, it is more important than ever to focus on the quality of services. I definitely agree with his perspective. Now that there is strong foundation for operations, Tallink Silja needs to focus on customer satisfaction and to improve its brand's quality. This includes forming a united fleet, and focusing on customer service and business strategies. For example, Tallink Silja should focus on its brand image and have a unified livery among all of its ships that would represent both the Tallink and the Silja brands. This would bring about a better brand image and give an impression that Tallink is seriously focused on quality. As of 2013, Tallink Silja had five different liveries in use and ships colors varied between green, red, blue and white. Customer service should be managed in a way that allows crew members, and other employees to fully understand and communicate fluently with the passengers traveling on the ships. This means for example, that employees in Sweden are able to communicate with Swedish customers fluently in order to provide the best possible customer service. Working methods in all ships and ports should also be unified. Sometimes customers complain about why certain things are managed differently in for examples, Helsinki's port than in Tallinn's port. This causes confusion and dissatisfaction among customers. Now seven years after Tallink Grupp acquired Silja Line Ab, there are still customers who believe that these companies are separate entities. This makes it clear that the company should increasingly promote itself as one corporation, and clearly express this when advertising cruises and services. This will possibly help Tallink Silja to increase sales in the future, and to represent a better brand image for the company.

Tallink Silja has been operating during peak seasons, 14 departures on the Helsinki – Tallinn route, and currently has eight departures daily between Finland and Sweden. Not all of the departures are profitable every day of the week, but due to Tallink Silja's great selection of departures, its customer base is greater than that of its competitors. Business travelers and logistics companies choose Tallink, because of the wide variety of options regarding departures, which allows them to be much more flexible when arranging travel. Due to the fact that traffic is very seasonable, in off-seasons, departures are not profitable. However, ceasing operations for that time of the year is not a viable solution because then Tallink Silja would lose all of its potential customers. Afterwards it would be very difficult to try to attract these passengers back once they have switched over to other companies. Sometimes keeping traffic on a route that's not profitable at all times, might help to make other routes become more profitable.

On board sales mark almost 60 % on the company's income, therefore it is one of the most important sources of income for Tallink Silja. Despite the tax free shopping was stopped on Helsinki – Tallinn route in 2004, Tallink Silja has managed to keep shopping prices low. This has attracted especially Finnish customers to travel to Estonia after cheap alcohol and other products. However Tallink Silja could revise if it could promote on board sales even more to increase sales income. Especially after Finland changed its legislation making alcohol prices higher, people's interest towards buying products from Estonia has increased.

By 2015, we will have a much better understanding of the new direction and future of maritime traffic. New emissions regulations will be in effect, and it is possible that the structure and base for maritime traffic will change dramatically. It is also possible that after 2015, shipping companies will wait for a few years to see how the market situation changes before they draw conclusions and make definitive changes. My own forecast is that in the beginning of 2020, all newly-built ships will be more of the ropax-type vessels, where the cargo spaces will be greater than the passenger lounges. It seems to me that luxurious cruises to Stockholm and Tallinn are slowly coming to an end. Business traveling and cargo will play a major role in the next decade, forcing shipping companies to change and adapt by bringing new kinds of vessels to replace

their current ones. Also, it is likely that more and more Finnish and Swedish sailors will be replaced by crews from countries where labor is cheaper. We have already seen how some shipping companies have started to use cheaper labor in their operations. However, I see Tallink and Silja as being a strong shipping company for many years to come.

Throughout the process of putting together this research project, I have gained an immense amount of knowledge about maritime traffic, and learned a great deal about sales estimations. It was also very interesting to learn about the factors that affect sales, and how maritime traffic has changed, and will continue to evolve. It will be interesting to see how the future of Tallink Silja will play out in the next few years.



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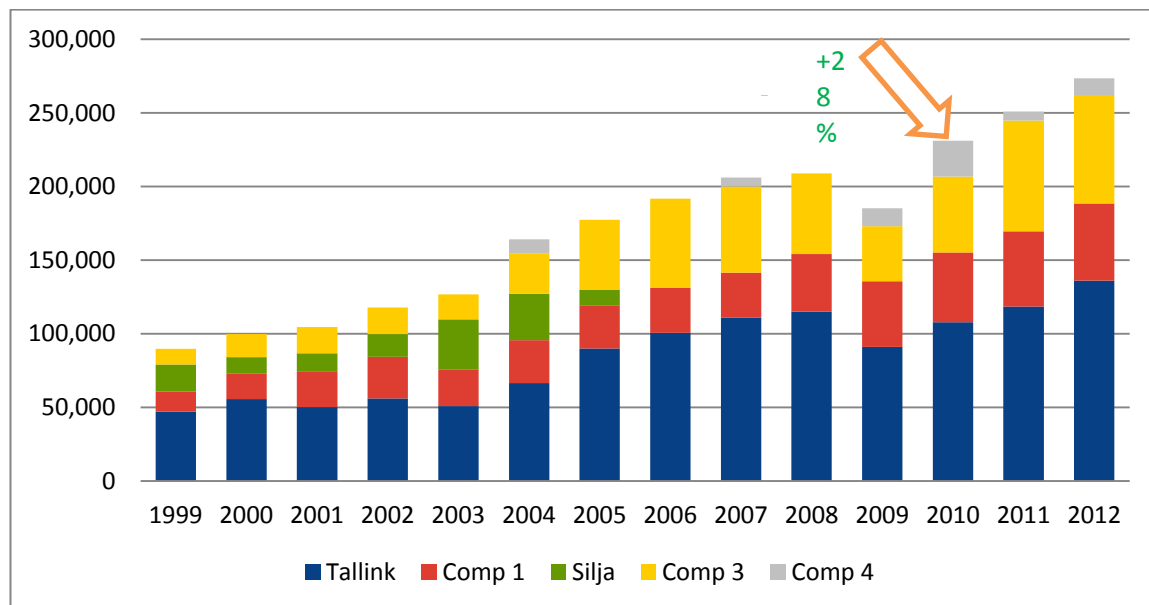
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## Attachments

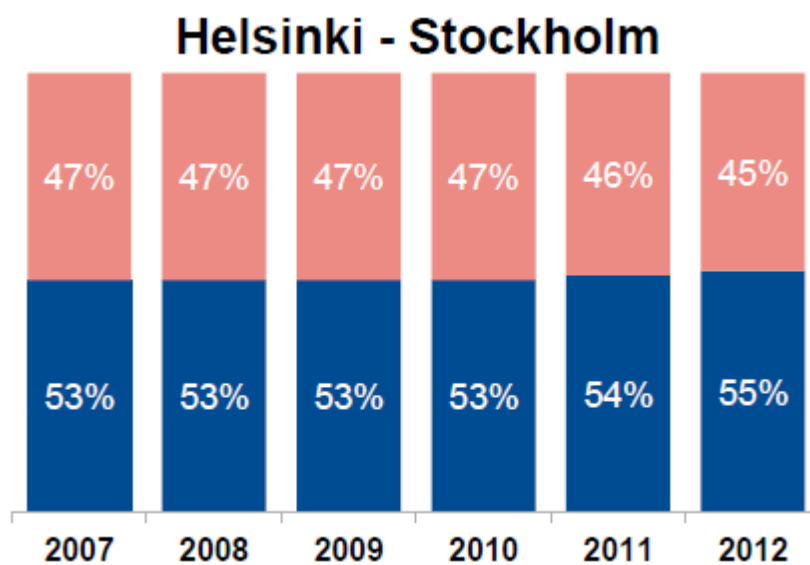
Attachment 1. Passenger amounts trend on Helsinki – Tallinn route.

Blue Tallink's market share and green Silja Line's. (Fagerström, H. 29 Oct 2013.



Attachment 2. Passenger amounts trend Helsinki – Stockholm.

(Tallink Silja 2013h)



Attachment 3. Passenger amounts trend Turku – Stockholm.

(Tallink Silja 2013h)

